National Credit Union Administration
2008-2009 Annual Report
Financial Section

Message from Chairman Debbie Matz

Message from NCUA's Chief Financial Officer

Fund Programs

National Credit Union Administration Operating Fund
National Credit Union Share Insurance Fund
Central Liquidity Facility
Community Development Revolving Loan Fund

Auditors' Reports and Financial Statements

A Statement by the Chairman

Today I am pleased to present the 2008 and 2009 audited financial statements of the National Credit Union Share Insurance Fund and three other funds managed by the National Credit Union Administration – the independent federal agency that regulates, charters and supervises federal credit unions and that oversees the U.S. credit union system.

As shown by the audits that we are releasing today, these funds have received unqualified or “clean” opinions, after having been fully and rigorously audited. The nation’s credit union community can be reassured that the agency’s finances remain strong.

For credit unions and more than 90 million consumers who have federally insured accounts, the most important finding is that the National Credit Union Share Insurance Fund continues to protect member deposits with a strong federal safety net. A robust deposit insurance program is the bedrock of member confidence in the federally insured credit union system. NCUA has always managed the NCUSIF with great care, ensuring that the deposit insurance fund will be well-prepared to respond to any situation. Credit union members can be reassured by these audits that their deposits are safe up to $250,000 per account.

NCUSIF is the best-known fund that NCUA manages, but these materials also certify the financial soundness of three additional funds overseen by NCUA. The auditors have also rendered clean opinions on the accounts that allow for the smooth day-to-day operations of NCUA; that provide revolving loans and grants to smaller and low-income credit unions; and that ensure reliable system-wide liquidity if it is ever needed.

I am pleased that these audits have finally been completed by both accounting firms that conducted independent reviews of the permanent funds that support NCUA’s operations. As soon as these audits were signed by the accounting firms, NCUA released the complete financial statements and audit opinions to the public on our website. Transparency will continue to be a hallmark of NCUA’s operations.

Given the difficult economic climate, we intend to be more vigilant than ever in our efforts to keep the credit union system strong. We will continue to look for opportunities to reduce risk in the system, strengthen capital, and enhance the overall supervision of the credit union industry. Consumers deserve nothing less.

Debbie Matz
Chairman

Message from NCUA's Chief Financial Officer

I am pleased to present the National Credit Union Administration (NCUA) 2008 and 2009 financial statements for the:

National Credit Union Administration Operating Fund;
National Credit Union Share Insurance Fund;
Central Liquidity Facility; and
Community Development Revolving Loan Fund.

These statements are our principal financial measure of accountability to the President, Congress, credit unions, and the American public. NCUA received unqualified, or clean, opinions from our independent financial auditors for both 2009 and 2008. Our financial statements reflect that the NCUA remains strong. The full financial statements can be found on NCUA's website.

The Board supported amending the Federal Credit Union Act. With Public Law 111-22, *Helping Families Save Their Homes Act of 2009*, deposit insurance coverage was increased to $250,000 through December 31, 2013, and the Temporary Corporate Credit Union Stabilization Fund (TCCUSF) was created. The purposes of the TCCUSF are to accrue the losses of the corporate credit union system, and over time, to assess the credit union system for recovery of such losses, rather than having one lump-sum assessment as previously required under the Federal Credit Union Act. The annual report is due to Congress by July 30, 2010 and will be posted to our web site.

NCUA continues its history of strong stewardship and accountability into 2009, as demonstrated by:

- Briefing the Board and public monthly on the financial status of the NCUSIF and the TCCUSF;
- Returning $740,000 in excess cash through reduced 2010 operating fee rates;
- Hiring 78 positions and maintaining a low employee vacancy level, two percent of authorized staff; and
- Engaging the Enterprise Service Center of the Department of Transportation, a shared service provider, to implement NCUA's next generation financial management system, a system that went live January 3, 2010.

In these times of unprecedented financial market challenges, strong financial management is vital to NCUA's mission of supporting a safe and sound credit union system. We will uphold our solid tradition of responsible financial management that focuses on continual improvements, ensuring the reliability of the financial data upon which critical decisions are made.

Mary Ann Woodson
Chief Financial Officer

National Credit Union Administration Operating Fund

Operating Fees, Transfers and Expenses

Operating fee assessment
For the 2009 operating fee scale, the assessment rates charged to natural person credit unions increased by 6.77 percent over the 2008 rates, primarily due to the addition of programs, such as the Annual Examination Program, and in response to economic conditions. A total of $81.7 million was collected in operating fees during 2009 as compared to $72.4 million in 2008.

Overhead transfer rate
The Operating Fund charges the National Credit Union Share Insurance Fund for insurance related expenses through an overhead transfer. The overhead transfer rate, based primarily on the amount of insurance work performed by NCUA staff, is calculated annually and applied to actual expenses. For 2009, the overhead transfer rate was 53.8 percent and resulted in transfers received by the Operating Fund of $90.2 million. During 2008, the overhead transfer rate was 52.0 percent with transfers received totaling $79.4 million.

Operating expenses
For 2009, operating expenses were $4.6 million, or 5.6 percent under the budgeted amount of $82.1 million, and for 2008, operating expenses were $2.8 million, or 3.8 percent below the 2008 budget of $76.4 million. The 2009 under budget variance is less than NCUA's 10-year average of 7.0 percent, while the 2008 variance is the smallest since 1997. Operating expenses are primarily driven by employee pay and benefits, which comprise 75.4 percent of all expenses. During 2009, NCUA hiring efforts increased staff by 78 positions and resulted in year-end vacancies of 16 positions based on an authorized staff level of 1,023.

Improper Payments Information Act
The Improper Payments Information Act requires agencies to review their programs and activities to identify those susceptible to significant improper payments. Significant improper payments are defined as annual improper payments in a program exceeding both 2.5 percent of program payments and $10 million. An improper payment is any payment that should not have been made or was made in an incorrect amount under statutory, contractual, and administrative or other legally applicable requirements. NCUA has reviewed its programs and determined that none are susceptible to a high risk of significant improper payments.

National Credit Union Share Insurance Fund

2009 Insurance Premium Follows Increased Deposits and Losses

The National Credit Union Share Insurance Fund (NCUSIF) remained strong during 2008 and 2009 addressing unprecedented economic conditions. An increase in insurance coverage limits to $250,000 in late 2008, as well as a “flight to quality,” resulted in 17 percent insured share growth in 2008 and 11 percent growth in 2009. The NCUSIF ended 2008 and 2009 with an equity ratio at 1.26 percent and 1.23 percent, respectively, below the Board established 1.30 percent normal operating level.

Along with collecting the normal 1 percent capitalization deposit adjustment, the NCUA Board also assessed an insurance premium of .1027 percent on insured shares to move the equity ratio closer to its normal operating level. Collections for the capitalization deposit adjustment and insurance premium totaled $1.1 billion and $727.5 million, respectively.

NCUSIF revenue was $949.6 million in 2009, as compared to $395.7 million in 2008. Revenue is primarily derived from insurance premium assessments and investment income, which in 2009 were $727.5 million and $188.8 million, respectively. The market value of the fund’s portfolio was $9.5 billion at 2009 year-end. The portfolio is comprised of U.S. Treasury securities, laddered with maturities through 2019. Operating expenses for 2009 were $134.7 million, an increase of $81.5 million from 2008. Insurance loss expense was $625.1 million, compared to $290.4 million in 2008. The fund finished 2009 with net income of $189.8 million as compared to $23.8 million in 2008.

Reserves
2009 ended with $758.7 million in NCUSIF reserves set aside to protect against future or potential losses for natural person credit unions. Fund reserves increased a net $480.4 million over the year. Unallocated reserves, also called general reserves, were $596.9 million of the total. The number of problem code credit unions increased from 271 to 351 during 2009. Total shares related to these credit unions increased from $16.3 billion to $41.6 billion, representing approximately 5.8 percent of total insured shares at year-end 2009.

Failures
Twenty-eight credit unions failed during 2009, compared to 18 in the prior year. Insurance losses paid totaled $161.7 million for 2009 and $284.6 million for 2008. In accordance with generally accepted accounting principles (GAAP), insurance losses are expensed when loss reserves are established for institutions considered a probable loss. Money subsequently paid on failed institutions is charged to the reserve account.

Insurance Coverage Increased
The Emergency Economic Stabilization Act of 2008, signed into law October 3, 2008, temporarily increased the maximum amount of insurance on member share accounts to $250,000. The temporary increase was extended through December 31, 2013, by the

Helping Families Save Their Homes Act of 2009. This increase includes all share account types, such as regular share, share draft, money market, and certificates of deposit. Individual Retirement Account and Keogh account coverage remains $250,000, separate from other types of share accounts.

Unqualified Opinion Earned
The NCUSIF received unqualified audit opinions on its financial statements for the years ending December 31, 2009 and 2008. The fund is also subject to audit by the U.S. Government Accountability Office.

Central Liquidity Facility

Facility Helps Stabilize System Liquidity Needs

The Central Liquidity Facility (CLF) serves as a back-up lender to meet the unexpected liquidity needs of its member credit unions when funds are unavailable from standard credit sources. CLF also has authority to lend funds to the National Credit Union Share Insurance Fund (NCUSIF) under terms and conditions established by the NCUA Board. The two primary sources of funds for the Facility are paid-in stock subscriptions from credit unions and borrowings from the Federal Financing Bank.

CLF Obtains Temporary Lift of Borrowing Cap
By statute, the CLF is authorized to borrow from any source up to 12 times its subscribed capital stock and surplus, but this authority has been subject to a Congressional appropriation limit below this amount since the CLF's inception. Since 2001, Congress has imposed an appropriation limit on the gross obligations of the CLF for the principal amount of new direct loans to member credit unions not to exceed $1.5 billion. In September 2008, Congress removed the appropriation limit at the request of the NCUA Board and authorized CLF to borrow its full statutory amount. This request was made in response to the unprecedented turmoil in the credit markets and the severe impact upon liquidity experienced by some corporate credit unions. CLF utilized its expanded borrowing capacity to help fund and stabilize the corporate credit union system starting in the third quarter of 2008 and continuing through all of 2009.

Liquidity Lending Programs
In the fourth quarter of 2008, the NCUA Board determined that making loans for purposes "other than liquidity needs" was in the national economic interest in order to establish special lending programs to address liquidity constraints in the corporate credit union system. The Board obtained concurrence from the Secretary of the Treasury and the Board of Governors of the Federal Reserve System in making its determination and establishing its special lending initiatives. Launched in January of 2009, the two initiatives for *other than liquidity needs* lending were the Credit Union System Investment Program (CU SIP) and the Credit Union Homeowners Affordability Relief Program (CU HARP). CLF made loans of $8.4 billion under these programs.

In March 2009, when the NCUA Board took steps to stabilize the corporate credit union system by placing U.S. Central Federal Credit Union and Western Corporate Federal Credit Union into conservatorship, the CLF approved a $10 billion advance to the National Credit Union Share Insurance Fund (NCUSIF) in order for NCUSIF to extend liquidity stabilization loans to these institutions.

At year-end 2009, CLF loans outstanding totaled $18.4 billion.

CLF Policy Changes
The NCUA Board approved a change to CLF's Earnings Retention Policy in September 2009 to resume an accumulation of retained earnings after paying a reasonable dividend to shareholders. Prior to September 2009, CLF paid members dividends of approximately 100 percent of net income. Increased retained earnings support the risks of the Facility and help fund the cost of operations through the management of income generated from the investment of retained earnings**.**

CLF Audit Report
The CLF received unqualified audit opinions on its 2008 and 2009 financial statements from independent auditors Deloitte & Touche LLP and KPMG LLP, respectively.

Community Development Revolving Loan Fund

Loans and Grants Expand Access and Financial Services

The Office of Small Credit Union Initiatives administers the Community Development Revolving Loan Fund (CDRLF). The CDRLF was established in 1979 to support the Federal Credit Union Act mission of making credit more available to people of small means. The CDRLF provides reduced rate loans and technical assistance funding to eligible federal and state-chartered credit unions serving low-income communities.

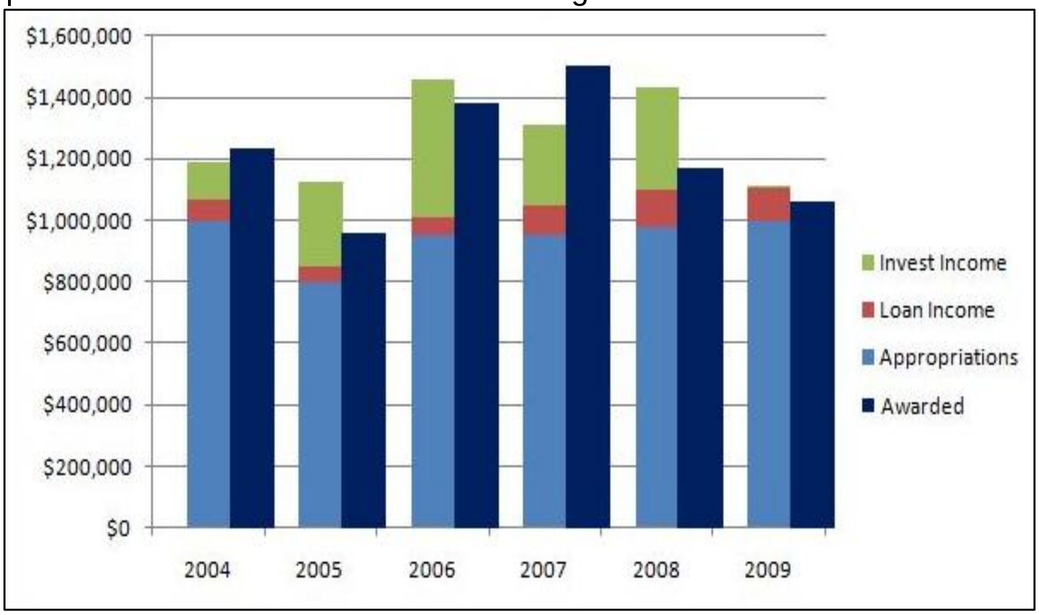
Loans Provide Services to Communities
Congress did not make an appropriation to the CDRLF for loans for fiscal year 2008 or for fiscal year 2009. Prior year appropriations of $13.4 million were available for loans. The CDRLF provided $2.5 million in loan funds in 2008. Loan demand in 2009 was less than the demand in 2008 due to credit unions' excess liquidity and downward pressure on earnings because of lower market rates. The CDRLF awarded loans totaling $259,000 in 2009.

At the end of 2008, $10.6 million in CDRLF loans were outstanding. The CDRLF disbursed $2.6 million in loans in early 2009, bringing outstanding loans to nearly $13.2 million. In 2009, loan amortizations available to lend by year-end amounted to approximately $4.3 million. The CDRLF opened a loan funding round in late 2009. In the 2009 funding round, credit unions were encouraged to undertake outreach projects to provide new or better services to members and the community. NCUA made loan awards and disbursements in the first quarter of 2010. Approximately $3 million in loan amortizations are anticipated by year-end 2010. NCUA plans to open a loan application period in 2010.

Grant Demand Exceeds Funding
In 2009, Congress appropriated $1 million, to the CDRLF to be used for technical assistance funding. The CDRLF also had 2009 earnings of $58,820 and prior years' retained earnings available for any funds awarded above the appropriated amount. All 2009 appropriated funds were obligated for technical assistance by year-end.

In fiscal year 2008, while low-income credit unions submitted 393 grant requests totaling more than $2.2 million, only $1.2 million was awarded due to limited funds. In 2009, CDRLF received 317 technical assistance grant applications requesting $1.9 million, and awarded 215 grants totaling $1.06 million. 2008 and 2009 grants were awarded from funds supplied by Congressional appropriations of $975,000 and $1 million, respectively.

The graph below illustrates available funds and grants awarded since 2004.



NCUA opened five grant initiatives in 2009:

Building Internal Capacity/Building Technology
This initiative is designed to provide funds to credit unions for projects that improve the overall operations and financial condition of the credit union.

Enhancing Member Services
The Enhancing Member Services Initiative encourages credit unions to undertake projects that provide new or better services to members and to the community.

Staff, Official, and Board Member Training
This initiative provides funds for credit union representatives to attend courses and seminars, and take advantage of other training opportunities.

Student Internship
This initiative is designed to defray credit union costs of training college students. Having a student intern familiarizes college students with the operation and management of credit unions.

Volunteer Income Tax Assistance (VITA)
This initiative provides funds to credit unions wishing to help existing and potential members prepare their tax returns, especially those members eligible for the Earned Income Tax Credit[1].

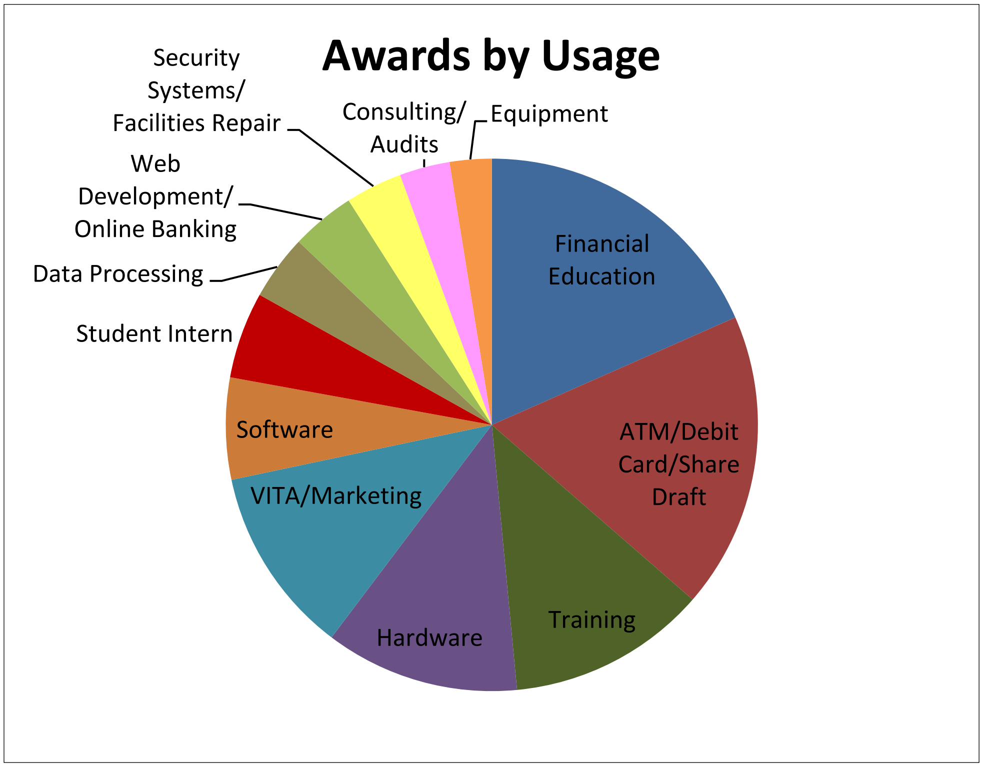
In addition, CDRLF sets aside earnings designated for an **Urgent Needs Grant** to ensure the continued viability of credit unions experiencing an unexpected or unplanned cost. If left unaddressed, that issue might disrupt existing services to members.

Uses of Monies
Credit unions used CDRLF loan and technical assistance grant funds to improve member services, which include the following:

- Add new services, such as ATM machines, debit cards, and electronic bill paying;
- Extend technology to members through web-based services such as online deposit and loan services and online bill pay;
- Provide financial education for members and the community in different languages, for homebuyers, and as part of the Volunteer Income Tax Assistance program;
- Provide alternatives to payday lending;
- Attend training courses, purchase on-line libraries, participate in webinars, and conduct on-site training;
- Expose student interns to credit union operations and management mentoring; and,
- Operate and participate in Volunteer Income Tax Assistance sites.

[1] The Earned Income Tax Credit or the EITC is a refundable federal income tax credit for low to moderate income working individuals and families. Congress originally approved the tax credit legislation in 1975 in part to offset the burden of social security taxes and to provide an incentive to work. When the EITC exceeds the amount of taxes owed, it results in a tax refund to those who claim and qualify for the credit.

The graph and table below illustrate the use of technical assistance in 2009.



Usage	*Dollars*	*Percent*
Financial Education	$ 194,097	18.4%
ATM/Debit Card/Share Draft	190,134	18.0%
Training	127,721	12.1%
Hardware	124,534	11.8%
VITA/Marketing	120,374	11.4%
Software	65,253	6.2%
Student Intern	55,500	5.3%
Data Processing	41,750	4.0%
Web Development/Online Banking	40,973	3.9%
Security Systems/Facilities Repair	36,292	3.4%
Consulting/Audits	32,300	3.1%
Equipment	26,850	2.4%
Total	***$1,055,778***	***100.0%***

The CDRLF received an unqualified audit opinion on its 2008 and 2009 financial statements.